

Investment Market Update No. 24

30 November 2005

Editorial

If Santa Claus should fail to call, bears will come to Broad and Wall... The Christmas rally is often thought of as a portent for the stockmarket's performance over the future year.

In this issue we cover:

1. Making the most of our services;
2. The way we build portfolios;
3. Transition to retirement allocated pensions;
4. Staff movements;
5. Investment Briefs.

David French

Head of Financial Planning & Business Solutions

Our Services

All clients are different - some come to us to solve complex retirement matters, some to ascertain pension entitlements and yet others to maximize investment returns. The services we offer are very broad, and I believe we are quite unique in the attention we pay to all types of client matters. This month I thought I'd go through some of the more common services that we can help you with. It's worth remembering that they're all included in the fees you are being charged.

Building and maintaining investment portfolios is a core part of our business. The way we do this is discussed in more detail below. Our fees include making changes to portfolios, access to floats, and general commentary. As a client of TRIP you also enjoy very attractive brokerage rates, and attractive interest rates on Cash Management Accounts and term deposits. Clients are welcome to call and discuss their portfolio at any time. You can call me direct, or speak to the advisor you normally deal with.

Performance and tax reporting is important for keeping up to date. We process all cash flows in and out of your portfolio, including dividends, interest and superannuation payments. This creates a big time saving for even smaller portfolios and is a key reason for using our portfolio administration system. It contains detail that is not normally contained in these types of reports, and because our system is audited, your accountant will save time because they don't have to collect the original paperwork. We will also liaise directly with your accountant to ensure that work is completed efficiently.

People's changing situations often mean adjustments to strategy or investments are necessary to ensure the best financial outcome. Within reason, these adjustments come as part of the service, that is, unless the work is

particularly burdensome, we won't charge you an additional fee.

Superannuation matters affect many people, but especially retirees and people nearing retirement. When deciding to use a superannuation investment, we look at how we can best use all available concessions to reduce tax and improve retirement income. Once set up we assist with calculations relating to allocated and complying pensions paid from superannuation funds, and other ways to withdraw money from superannuation – lump sum draw downs for instance.

Retirees are often concerned when they receive queries from Centrelink. All clients have to do is drop the request in and we will attend to it for you. We'll also help with setting up Centrelink pensions or having them adjusted where the amount being paid is too low.

Life insurance matters have to be kept up to date and in conjunction with AON and The Rock, we'll undertake a review of your insurance or assist in ironing out any problems that arise.

We undertake banking tasks and recording of expenditure for many clients. This enables clients to keep clear track of their finances – especially useful at tax time, and to get money transferred or bills paid with a minimum of fuss.

Sometimes businesses grow beyond what was originally anticipated, or they find that the original structure is no longer efficient. We can undertake calculations to assess structures that are more efficient, both from an operational and from a tax perspective.

While the above work is all included in our regular fees, we can also organize for other work to be undertaken that assists with your financial management. To that end we have developed excellent

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relationships with accountants, actuaries and lawyers. In conjunction with those people, we'll assist in providing estate planning advice, accounting, auditing and actuarial work for self managed superannuation funds. We can also point you in the right direction for legal advice regarding investments in franchises, or private companies or for property development.

Finally, we're always available for a chat. While it's best to make an appointment and to give us an idea of what you would like to discuss, many clients simply drop in. We like that too, because it leads to an informality in the relationship that has been shown benefit you and us.

Building Portfolios

Putting together an investment portfolio is a lot more complex than simply guessing which assets will go up. While that is obviously the longer term aim, there are other equally important considerations.

In making investment recommendations our first port of call is to assess a client's risk profile. That gives us an insight into how much risk a person is prepared to take, and that is directly related to the volatility of the investment portfolio. The second thing is to look at why the portfolio is being built in the first place. Is it to generate income, or general capital growth, or is it in a super fund which is paying an allocated pension?

We try very hard to construct income generating portfolios that yield in excess of the income or pension drawdown requirements. Our research shows that the impact of not selling investments to fund income requirements can have a very positive impact on people's long term financial situation. Our experience is that companies that pay consistent and strong dividends, often exhibit the best long term price performance. For that reason we are less concerned about day to day portfolio fluctuations - although of course we do like to see rising values.

Our investment philosophy yields a number of predictable outcomes. They are as follows:

- Clients who are reliant on their portfolio to live on (allocated pensions, or other regular draw-downs) will be less likely to have to dip into their capital, in the short to medium term. That means the money will last longer – sometimes much longer.
- Portfolios will not perform as strongly as the overall market in boom times. This year the overall market is up by around 13 per cent. Industrial stocks are up by only about 8 per

cent, but resources are up by 41 per cent. Resources stocks can be very volatile so we don't have exposure to them in many portfolios. We do get some exposure to them through certain managed funds, but in a market like this our portfolios will lag. Research by Macquarie equities shows that these markets occur about once every 8 years.

- Portfolios will perform much better than the market when economic conditions are slowing. This has been vindicated over the last 5 years and our returns continue to beat the market for all but the shortest time periods.

Feel free to call me to discuss your investment portfolio.

Transition to retirement allocated pension

As of 01 July 2005, new legislation has allowed some individuals to access the restricted non-preserved and preserved portions of their superannuation early. Prior to this, these benefits were not accessible until a condition of release (such as retirement) had been satisfied.

Who qualifies?

Individuals who have reached preservation age (currently 55 years) are able to access these benefits in the form of a non-commutable income stream. The idea behind this is to assist these people with transitioning to retirement. The transition to retirement pension, is used to supplement lost income in the event that work hours are scaled back.

Although this is the main focus of the new rules, the changes do in fact open up a new planning opportunity. It is possible for an individual to commence a non-commutable income stream and at the same time salary sacrifice additional funds to superannuation. Some case studies have shown that in addition to boosting your superannuation balance as you move towards permanent retirement, there are also tax savings that can be made along the way.

Obviously this is a very broad overview of the new rules and your individual circumstances must be taken into account. If you believe the above strategies would be of any interest please contact us.

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Staff movements

Meri Tungate is leaving TRIP to become involved in a venture assisting with the administration of self managed superannuation funds (SMSF's). We are currently negotiating with Meri and her partners regarding her continuing to do some of the administration work for the SMSF's that we look after.

Rae Hawkins will become our resident accountant, responsible for client reporting and overseeing Self Managed Superannuation Fund Compliance. Starting in January, Rae is a Chartered Accountant with over 6 years experience in private practice.

Roland Dodd recently joined us as our IT programmer and networker. Roland has broad IT experience gained at Central Queensland University, where he was involved in both teaching and hands on work. Roland is currently completing a PhD in the development of computer systems that can identify problems in industrial processes that are in the making and provide solutions ahead of time.

With Rae and Roland coming on board, TRIP will be much better placed to offer increased levels of service and useful reporting initiatives.

Investment briefs

The Australian Gas Light Limited (AGL) applied to the government this week to grant regulatory concessions for the \$3 billion PNG to Queensland gas pipeline. AGL plans to debt fund construction and is seeking concessions that would enable the consortium to meet profit targets for 15 years, subject to 5 yearly reviews. At the PNG end, Exxon Mobil and Oil Search are developing the field.

A decision on the pipeline is expected by mid 2006, and is subject to converting conditional agreements with AGL, Comalco, Alcan and CS Energy into firm contracts (Courier Mail 6/12/05).

Tabcorp Holdings Limited (TAH) recently held its AGM with management giving an update on performance for the first 4 months of the year.

Management indicated a deterioration in revenue growth in its wagering, casino and gaming divisions. Contributing factors were a continuing dispute over broadcast rights, the impact of smoking bans and competition from Tattersalls. A key risk for the future is the approval of the Betfair betting exchange. Tabcorp is responding with a more measured approach to investment and a tightening of costs (Comsec).

ANZ Banking Group (ANZ) announced its intention to acquire 19.9 per cent of the Tianjin City Commercial Bank in China for \$160 million subject to regulatory approval. Tianjin CCB is the 4th largest of its kind in China and is situated in the high growth Bohai Bay region. This move is in line with ANZ's strategy of making small investments in Asia – it already has 3 (UBS).

Patrick Corporation Limited (PRK) announced that it has purchased a 12 month option to acquire FCL Interstate Transport Services for \$142 million. The arrangement is subject to ACCC approval and signals a deepening of the relationship between the parties. It suggests that PRK may be trying to demonstrate to its shareholders its ability to develop into a vertically integrated logistics business and to present a viable alternative to the Toll bid. The move may encourage PRK shareholders to hold out for a better offer from TOL which, some think will need to be raised by \$1.50 in cash to gain control (Comsec).

Tattersalls limited (TTS) has purchased a 10.1 per cent interest in the UK gaming company Talarius Limited for \$12 million. Talarius listed in April 2005 and operates around 8,000 gaming machines in quality main street locations. A limited roll-out of newer machines, has begun and any liberalisation by the UK gaming commission would be positive for Tattersalls. The acquisition will enable the company to leverage its core technology and provide a strong base for further diversification through acquisition (UBS).

The views expressed herein may not reflect the views of The Rock. You are advised to seek advice regarding your particular situation before acting on anything contained herein.

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